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FISCAL ASPECTS OF STATE INCOME TAXES

The tax-yielding capacity of incomes in the various states has come to light for the first time with the development of the federal income tax law and the publication of statistics of income. The results published by the Commissioner of Internal Revenue for the year 1917¹ furnish the most recent comparative data of this kind. It is a well known fact that Massachusetts is the only so-called "industrial" state which has a personal income tax in full operation, although the New York tax is being collected for the first time during the present year. The federal returns make it clear that the foremost industrial states are at the same time the *richest* states, as judged by the incomes of residents. New York ranks first, Pennsylvania second, Illinois third, Massachusetts fourth, and Ohio fifth in the amount of personal net incomes reported for the year 1917 and in the amount of taxes paid on those incomes.² These five states yielded exactly two thirds of the taxes paid on personal incomes received in 1917. The same five states, with the positions of Massachusetts and Ohio reversed, rank highest in the amount of taxes paid by corporations for the same year, contributing 63 per cent of the total amount of such taxes paid for the country as a whole.³

It is plain, therefore, that with the exception of New York and Massachusetts, huge amounts of income taxes cannot be expected at present in those states in which income taxes have recently been in operation or are being collected for the first time in the present year. The remaining ten states (Alabama, Delaware, Mississippi, Missouri, New Mexico, North Carolina, North Dakota, Oklahoma, Virginia, and Wisconsin), out of the twelve which have income tax laws on the statute books at the present time, are in stages of only moderate industrial development, or are largely undeveloped. These states can be *graded* and *ranged in order*, however, with respect to the tax-yielding capacity of their incomes, and in the relations to one another in which the federal results have shown them to stand. In this manner the relative success of the state income taxes can be estimated.

¹ *United States Internal Revenue, Statistics of Income for 1917 (1919)*.

² *Ibid.*, pp. 24, 25. War excess profits taxes are included in the federal statistics, but taxes derived from incomes of less than \$2,000 are excluded from the figures presented.

³ *Ibid.*, pp. 53, 54.

A second point of view from which the efficacy of state income taxes as revenue producers can be examined is given by a survey of the entire tax systems of the states in question. What is the proportion of the state's revenue which is obtained by means of income taxes? In particular, what is the relation of the income tax to the general property tax (the deficiencies of which the income tax has in several instances been intended to remedy)? Furthermore, a factor not to be neglected in estimating the financial success of income tax measures is the cost of collection. In spite of the importance of this item, few states, except those which have been signally successful with the tax, have analyzed the cost. To be sure, the cost of a tax cannot be adequately stated in terms of the expenses of administration alone; for losses and inconveniences to the taxpayers are in the last analysis translatable into terms of dollars, which are in a true sense a part of the cost. Nevertheless, the annual cost of administration forms a useful basis for a comparison of the efficiency of the various state systems.

The following discussion is an analysis of the financial results of the operation of state taxes on personal incomes, and of the possibilities of the newer type of legislation. The states are considered in the order of their adoption of new income tax measures during the last decade.

Wisconsin. In the first year of its operation in Wisconsin the graduated tax on individual and corporate incomes brought in one and one half millions of dollars, and in the succeeding years the collections have far outstripped the prophecies made by the advocates of the experiment at the time of the passage of the act. The record of cash paid in for income taxes (excluding personal property tax offsets) during the period covered by the operation of the law is as follows:⁴

YEAR OF ASSESSMENT (on incomes of previous year)	CASH COLLECTIONS
1912.....	\$1,631,413
1913.....	1,935,847
1914.....	2,002,213
1915.....	1,906,442
1916.....	2,959,726
1917.....	6,161,067
1918.....	6,951,483

⁴ *Wisconsin Tax Commission, Eighth Biennial Report, 1916, p. 24; Ninth Biennial Report, 1918, p. 3; unpublished table, 1920.*

The conspicuous increase in the collections for 1917 and 1918 is regarded by the state tax commission as "abnormal" and due to "abnormal business conditions."⁵ The commission gives warning that "the permanent value of income taxation cannot be judged by the returns of three abnormal years."

In 1918 more than three fourths of the taxes were assessed upon corporate incomes. This figure roughly indicates the growth of corporations since the 1915 assessment of income taxes, when 70 per cent was assessed to corporations.⁶

Since the Wisconsin tax applies both to individual and corporate incomes earned within the state, the collections may be roughly compared with the federal personal and corporation income taxes collected in Wisconsin. The federal taxes on 1917 incomes amounted to \$5,000,000 on individual incomes and \$31,000,000 on the incomes of corporations, or \$36,000,000 in all.⁷ Wisconsin, then, through a tax with moderately progressive rates, is collecting for state purposes about one fifth of the amount which the federal government is collecting in that state by means of a tax with a very high progressive rate applying to personal incomes and a proportional rate for corporate incomes.

The tendency of the Wisconsin income tax receipts to form an increasingly important part of the tax system of the state is shown by a comparison with the general property tax, the principal source of state revenue. The general property tax levies have increased only by 47 per cent (\$34,000,000 to \$50,000,000) during the period 1912 to 1917, while the income tax levies have increased 172 per cent during the same period.⁸

The low cost of collecting the income tax is emphasized by the Wisconsin officials. On the basis of cash collections the cost has ranged from $\frac{3}{4}$ to less than 1 per cent.⁹

YEAR OF COLLECTION	COST (PER CENT)	
	BASIS: ASSESSMENTS	BASIS: CASH COLLECTIONS
1913	1.31.....	2.77
1914	1.11.....	2.33
1915	1.06.....	2.20
1916	1.30.....	2.62

⁵ *Ninth Biennial Report*, 1918, p. 5.

⁶ *Eighth Biennial Report*, 1916, p. 54.

⁷ *Statistics of Income for 1917*, pp. 25, 54.

⁸ *Ninth Biennial Report*, 1918, pp. 5, 10, 30.

⁹ *Seventh Biennial Report*, 1914, p. 126; *Eighth Biennial Report*, 1916, p. 69.

In later years the reports of the state tax commission have not presented the figures for cost of collection. This cost is estimated, however, at an amount about equal to that of earlier years (indicating a *relatively* smaller cost).

This . . . figure cannot be definitely stated as the local treasurers collect the income tax with practically no increase in compensation. The cost of assessing the tax and certifying the amounts to the treasuries of the local districts is probably about \$100,000 per annum.¹⁰

After eight years of operation, the success of the measure seems to be beyond serious question. The state tax commission makes the conservative statement in its report for 1918 that the operation of the law is satisfactory.¹¹

Results have been satisfactory. . . . The increase in the tax is not confined to any particular locality or localities but is general throughout the state. The gradual and steady increase under normal conditions is doubtless due, first, to the fact that under such conditions there is a steady growth in business from year to year throughout the state, and, second, because of the increased efficiency in administration. The conclusion from the foregoing is that a constant increase in revenue from income taxation may be confidently expected, subject of course to fluctuations due to occasional abnormal expansion or contraction of business.

Mississippi. The immediate successor of Wisconsin in the income tax field, Mississippi, failed to profit by the example of the former state in the framing of those portions of the law applying to rates and incomes taxable, as well as in the matter of administration. By the terms of the Mississippi act¹² a tax of $\frac{1}{2}$ per cent is levied upon individual incomes in excess of \$2,500. The amount yielded by this tax has always been small. Before 1918 the revenue from the tax could not be counted upon for more than \$25,000 a year.¹³ During the year ending September, 1918, the amount of the state income tax collected was \$31,123, or about 1 per cent of the total amount of taxes collected in that year.¹⁴ Meanwhile the federal government has collected more

¹⁰ Personal letter from the secretary of the state tax commission, March 10, 1920.

¹¹ *Ninth Biennial Report*, 1918, p. 5.

¹² *Mississippi, Laws*, 1912, ch. 101; 1914, ch. 116.

¹³ *Mississippi, Joint Report of the Senate and House Committee to Consider the State's Revenue System and Fiscal Affairs, Submitted to the Regular Session of 1918*, p. 42.

¹⁴ *Mississippi, Auditor's Statement of Amounts Received as Taxes and Amounts Returned as Appropriations during Year ending September, 1918*.

than \$2,000,000 in one year on individual incomes in Mississippi.¹⁵

The tax authorities of the state have repeatedly expressed dissatisfaction with the law. The senate and house committee which reported in 1918 recommended sweeping changes.¹⁶

The present income tax law of Mississippi should be repealed outright. We recommend the passage of a law with progressive rates, taxing incomes of both individuals and corporations. . . . The law we submit is an adaptation of the Wisconsin and Federal income tax statutes to Mississippi conditions. . . . It is necessary that the State Tax Commission be given administration of this law, and that they should be provided with . . . funds to administer it properly. Its success or failure is solely a matter of administration.

With equal vigor the state tax commission indicates the defects of the present law and advocates a net income tax to reach business incomes, with the necessary administrative provisions, as a substitute for privilege taxes.¹⁷

A bill embodying the recommendations of the joint legislative committee was introduced in the legislature of 1918, and was passed by the house but defeated in the senate.¹⁸ The former inadequate personal income tax legislation still stands, therefore, paralleling the almost equally unsatisfactory privilege taxes applying to business.

Oklahoma. The first income tax law of Oklahoma,¹⁹ passed almost immediately after Oklahoma's admission to the Union, imposing a graduated tax upon personal incomes only, was a failure in every way. The yield for the first four years of its operation was as follows:²⁰

YEAR	YIELD
1909.....	\$2,816
1910.....	4,913
1911.....	4,671
1912.....	4,834

After recording the insignificant yield of the tax during the entire time it had been in force, the state auditor in 1912 recommended that the law should be either thoroughly revised or repealed.²¹

¹⁵ *Statistics of Income for 1917*, p. 24.

¹⁶ *Mississippi, Joint Report*, etc., pp. 41, 42.

¹⁷ *Mississippi Tax Commission, Report for 1917*, pp. 11, 20.

¹⁸ *Bulletin of the National Tax Association, May, 1918*, p. 118.

¹⁹ *Oklahoma, Session Laws, 1907-08*, ch. 81.

²⁰ *Oklahoma State Auditor, Third Biennial Report, 1912*, p. 235.

²¹ *Ibid.*, pp. 235, 236.

The law has, in my opinion, proven a failure as a revenue producer for the State. . . . No uniformity prevails in making income tax returns—there were as many definitions for the term “gross income” as there were persons examined. . . . This is a chaotic condition and unless the next Legislature deems it advisable to amend the law “in detail” . . . I would recommend that the act be repealed.

After repeated recommendations of this kind had been made, the 1915 legislature undertook a drastic revision of the whole income tax law.²² The rates were raised and the entire personal net income derived within the state was made subject to the tax. Increased collections immediately resulted. The tax yielded slightly more than \$250,000 for the year 1915 and over \$400,000 for the year 1916. The amount yielded for 1916 was greater than the combined collections of the preceding seven-year period, but was only about 1.5 per cent of the total tax collected in the state in 1916.²³ The collections of the federal government for the personal income tax in Oklahoma in 1917 were \$5,500,000. In spite of the apparent determination of the Oklahoma authorities to achieve a workable and productive income tax, the fund of taxable income in the state has hardly been tapped.

Massachusetts. The income tax law of Massachusetts was passed in 1916, five years after the adoption of the measure in Wisconsin, and was the first act the effects of which proved in any way comparable to those of the pioneer measure. In spite of the fact that the Massachusetts plan failed to include progression, and although the rates, except on the income from intangibles, are low, the annual flow of wealth in the state is much greater than in Wisconsin, and consequently more favorable results should be expected. Moreover, Massachusetts was the only state which up to 1916 had followed the example of Wisconsin in providing centralized and specialized administrative machinery. By many critics this administrative feature is regarded as of more importance than any other one element in accounting for the financial success of the act—a statement hardly capable of proof or disproof until a wider experience with state income taxes has provided a basis of comparison. Whatever the essential explanation, it is true that the Massachusetts experience with the tax has been unexpectedly fortunate, and the amounts collected have exceeded

²² *Oklahoma, Session Laws*, 1915, ch. 164.

²³ C. Russell, “Taxation in Oklahoma,” *Proceedings of the National Tax Association*, 1917, pp. 52-55.

the estimates made at the time of the passage of the law.²⁴ For the first year of collection, 1917 (on incomes received in 1916), the net cash collections were \$12,245,541, and for the second year of collection, 1918, the corresponding amount was \$14,077,801.²⁵ In the latter year \$1,237,057 of this amount was produced by an additional "war tax" of 10 per cent of the taxes paid.

In comparing the yield in Massachusetts with that in Wisconsin, it should be borne in mind that the Massachusetts figure does not include the tax on corporations. Moreover, it has been repeatedly urged that the Massachusetts tax is "in no sense a *general* income tax, but taxes only certain kinds of income, exempting particularly, to avoid double taxation, the large classes of income from real estate, from dividends of Massachusetts corporations, income from savings bank deposits, and from interest on mortgages secured by Massachusetts real estate locally assessed for an amount equal to the mortgage."²⁶ With these exceptions, the Massachusetts tax is comparable to the personal income tax measures of other states. The yield of over \$14,000,000, an amount which far outstrips the personal income tax yield in any other state, is in itself a demonstration of success. Moreover, the collections rank higher than those of any other state when they are related to those made under the federal income tax. The federal taxes derived from personal incomes in Massachusetts in 1917 was \$43,700,000. Massachusetts, then, was able to collect one third as much as the federal government, a record which outstrips that of Wisconsin, which collected about one fifth.²⁷

The elasticity of the income tax as a revenue producer is so well recognized in Massachusetts that the legislature of 1919 again turned to it for resources with which to meet a temporary financial emergency—the obligations assumed by the Commonwealth towards ex-soldiers. The tax on intangibles was increased from 6 to 6½ per cent, and the rate on business incomes from 1½ to 2½ per cent.²⁸

²⁴ C. J. Bullock, "The Operation of the Massachusetts Income Tax Law," *Quarterly Journal of Economics*, May, 1918, p. 528.

²⁵ *Massachusetts Tax Commissioner, Report for 1918*, p. 32.

²⁶ *Massachusetts Tax Commissioner, Report for 1917*, p. 7.

²⁷ The removal of the provision for personal property tax offsets in Wisconsin would probably not eliminate this difference entirely. It is impossible to determine the effect upon Wisconsin's ratio of the inclusion of taxes on corporate income in both factors.

²⁸ *Massachusetts, General Acts 1919*, chs. 342, 324.

As in Wisconsin, the cost of collecting this type of tax has proved to be low. The cost of administration in Massachusetts was 1.86 per cent of the total assessment in the first year and 1.44 per cent in the second year.²⁹

Missouri. In comparison with the revenue derived in Wisconsin and Massachusetts, the yield of the Missouri income tax has up to the present been insignificant. The law in its first form, providing for a tax of $\frac{1}{2}$ per cent of individual and corporate incomes, went into effect in 1917. The collections recorded for the years 1917 and 1918 are \$295,973 and \$616,107 respectively.³⁰ In 1918 the receipts from the income tax formed slightly more than 4 per cent of the total general fund receipts.

An income tax on this modest scale was inadequate for the financial needs of the state of Missouri, and was so recognized by the legislators of the following year. Missouri outranks Wisconsin in wealth, according to the federal reports. The amount of personal net incomes reported for 1917 by Missouri was more than 50 per cent greater than the corresponding amount reported by Wisconsin, and the net income of Missouri corporations was more than double the net income of Wisconsin corporations.

In the legislative session of 1919 a consistent attempt was made to increase the state revenue from various sources. In conformity with this program, the rate of the income tax was increased to $1\frac{1}{2}$ per cent, and the exemptions lowered. Another important modification was made by repealing that provision of the earlier law which permitted a deduction of amounts paid as state property taxes. As a result the state income tax is tending to become an addition to the state property tax rather than an alternative measure. From \$4,000,000 to \$5,000,000 is expected from the incomes of 1919, taxed under the new law.³¹ The costs are not separated from those for making the general assessment of property.

In spite of the efforts of the legislature of 1919 to reform the law, it remains inadequate. An act which imposes so low a rate, lacks the feature of graduation, and provides for no separate central or local administration, has small opportunity to play an important part in the revenue system of the state.

²⁹ *Massachusetts Tax Commissioner, Report for 1917*, p. 15; *Report for 1918*, p. 27.

³⁰ *Missouri State Treasurer, Report for 1917-1918*, p. 12.

³¹ Personal letter from the state auditor, March 19, 1920.

Delaware. The personal income tax law passed in Delaware in 1917 was more promising than that of Missouri, passed in the same year, in that it imposed a higher rate (1 per cent) and allowed smaller deductions.³² On the other hand, the tax was not applied to corporations. A striking feature of the act was the exemption of gains from agricultural operations.

Approximately \$400,000 was realized from the tax in 1918, the first year of collection.³³ This yield was considered adequate for the needs of the state, and although the general assembly of 1919 made a rather detailed revision of the act, the only changes tending to bring about increased revenue were the inclusion of gains from agricultural operations³⁴ and further provision for separate collection of the tax.

The amount collected in Delaware constituted more than one fourth of the receipts of the general fund of the state for the year 1918.³⁵ The state levies no general property tax, however, so that this figure cannot be compared with the ratio given for other states. The proceeds from the operation of the income tax in Delaware are treated as an addition to the total revenue rather than as substitutes for the proceeds of unsatisfactory types of tax measures, and are used to facilitate the work of the schools and of the state highway department.

Virginia. The income tax in Virginia, which applies to both individuals and corporations, has remained at the rate of 1 per cent since 1874. It produced only a relatively small amount of revenue until corporations were included under the act of 1916.³⁶ Beginning in that year the receipts have greatly increased. A summary for recent years is as follows:³⁷

YEAR	RECEIPTS FROM INCOME TAXES
1908.....	\$122,058
1909.....	102,810
1910.....	106,909
1911.....	129,429
1912.....	102,678
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1916.....	353,756
1917.....	660,745

³² *Delaware, Laws 1917*, ch. 26.

³³ *Delaware State Treasurer, Report for 1918*, p. 6.

³⁴ *Delaware, Laws 1919*, ch. 30.

³⁵ *Delaware State Treasurer, Report for 1918*, pp. 5, 6.

³⁶ *Virginia, Acts of Assembly, 1916*, ch. 472.

³⁷ E. Sydenstricker, *A Brief History of Taxation in Virginia*, p. 13; *Virginia Auditor of Public Accounts, Report for 1917*, p. 89; *Statement by Auditor, August, 1919*.

Since the federal government received nearly \$23,000,000 in income taxes from individuals and corporations in Virginia for the year 1917, the state income tax is clearly only imperfectly utilized. Nevertheless, the tax authorities of Virginia appear to find the revenue satisfactory. The auditor of public accounts states that in his opinion the financial situation of the state is so fortunate that the rates of taxation on intangible personalty can be reduced and those on tangible personalty entirely removed.³⁸ In such a situation it is unlikely that an extensive amplification of the income tax law will be undertaken in the near future. The amount received from the income tax already constitutes about 7 per cent of the total state tax.

The cost of collecting the tax in 1917 was \$26,000, or 3.94 per cent.

South Carolina. The only recent evidence of the unworkability of an income tax law to such a degree that the law has been repealed and no substitute adopted, is afforded in the history culminating in the repeal of the South Carolina law in 1918.³⁹ In so far as the failure of the law can be ascribed to any one cause, it appears to lie in the fact that the administration was left in the hands of the local assessors, and accordingly the law was never fully enforced. The law in operation before 1918 provided for the levying of a tax on personal incomes at a rate increasing from 1 per cent on incomes of \$2,500 and less than \$5,000 to 3 per cent on incomes of \$15,000 and over. The yield in recent years is given as follows:⁴⁰

YEAR	YIELD
1914.....	\$15,303
1915.....	31,126
1916.....	27,690
1917.....	34,050

The state tax commission from time to time expressed great dissatisfaction with the working of the law, and advocated the removal of the most negligent of the assessors.⁴¹ With so flagrantly ineffective an administration the breakdown of the law was in-

³⁸ *Virginia, Auditor of Public Accounts, Reports for 1917*, p. xiv.

³⁹ *South Carolina, Acts 1918, No. 433. An Act to Repeal Sections 354 and 360 Inclusive of the Code of Laws of 1912, Volume I, Relative to Tax on Incomes and All Acts Amendatory Thereof, Approved Feb. 14, 1918.*

⁴⁰ *South Carolina Tax Commission, Third Annual Report, 1917*, p. 105.

⁴¹ *South Carolina Tax Commission, First Annual Report, 1915*, p. 26; *Second Annual Report, 1916*, p. 20.

evitable. The repeal in 1918 cleared from the revenue code a tax law the returns of which in recent years had hardly paid for the trouble and expense of collection, and which undoubtedly had a demoralizing effect upon both taxpayers and assessors.

North Carolina. In 1919 the state of North Carolina completed seventy continuous years of income tax legislation, and demonstrated its reliance upon this form of taxation by the passage of a new law with increased rates.⁴²

According to the law⁴³ in force before the revision of 1919, the rate was 1 per cent upon the excess over \$1,000 of gross incomes from all property not otherwise taxed, salaries and fees, annuities, trades, and professions. The amounts collected under this law were small. In the decade 1890-1900 they ranged from about \$2,000 to \$4,500 a year. In the next decade the receipts increased, and ranged from about \$20,000 to \$40,000. In recent years the proceeds have expanded as follows:⁴⁴

YEAR	REVENUE RECEIPTS FROM INCOME TAXES
1912.....	\$36,497
1913.....	42,657
1914.....	50,798
1915.....	58,606
1916.....	61,386
1917.....	64,152
1918.....	109,285

Although the receipts had been steadily expanding during the last decade, largely as the effect of vigorous administrative reforms, the 1 per cent rate on personal incomes from specified sources came to be considered inadequate. The federal tax on 1917 incomes yielded \$25,000,000 or about twenty-three times as much as the state tax. In 1918 the state tax commission and the corporation commission strongly advocated a constitutional amendment permitting the extension of the law to incomes from all sources. The plan failed, however, and the program carried through by the general assembly of 1919 was merely a revision of the law, introducing increased and progressive rates. The rates are low—the maximum is reached at 2½ per cent on incomes of more than \$10,000, and, except for the element of progression, the law includes no provisions calculated to put the state in line with those which tax incomes from all sources and secure the enforce-

⁴² *North Carolina, Public Laws 1919*, ch. 90, secs. 22-25.

⁴³ *North Carolina, Laws 1907*, ch. 256.

⁴⁴ *North Carolina Tax Commission, Report for 1918*, p. 20.

ment of the law through specially appointed income tax officials and collectors.

Other states. The four states which adopted income tax laws during the legislative sessions of 1919—North Dakota, New Mexico, New York, and Alabama—represent the extremes of tax-paying power. New York, the richest state in the Union, paid 37 per cent of the personal income taxes collected by the federal government for the year 1917. The three other states combined paid only $\frac{1}{2}$ per cent of the whole. The amount paid by New York was \$250,000,000, while the amount paid by New Mexico was \$643,000, that by North Dakota \$856,000 and that by Alabama \$2,000,000. New Mexico stands second from the bottom of the list and North Dakota fourth.

The progressive rates (1 to 3 per cent) applied to personal incomes by the New York law are moderate, but the huge incomes derived within the state justify the preliminary estimates of a yield of \$45,000,000 from the tax.⁴⁵ The North Dakota act imposes rates on individual incomes which are unprecedented in the history of state income taxes, reaching 10 per cent on earned incomes above \$40,000 and unearned incomes above \$30,000. The total taxable income of the state is small. The effectiveness of heavy rates imposed by the separate states remains to be tested, and the North Dakota system, which provides for an administration somewhat like that of Massachusetts, will afford an example of an attempt to collect a *proportionately* large amount under fairly favorable conditions. In New Mexico the taxable income is even smaller, and the experience of that state with the moderately progressive tax (rising to 3 per cent on corporate and individual incomes of more than \$50,000), administered by the existing tax officials, can do little to guide the wealthier industrial states in shaping their own legislation. With the Alabama law the situation is more promising. The incomes received within the state are considerably greater; the rates on personal and corporate incomes (rising from 2 per cent on incomes up to \$5,000 to 4 per cent on incomes of more than \$15,000) are higher; and the supervision of administration is given to the chairman of the state tax commission.

Summary

The results of the operation of the various state income taxes,

⁴⁵ *Bulletin of the National Tax Association*, May, 1919, p. 204.

judged in the light of the relative tax-paying capacity of the incomes of residents, indicate financial success on the one hand and financial inadequacy and failure on the other. Allowing for the fact that in certain states the income tax rate applies to individual incomes only, while in others it applies to corporate incomes, that in a few states only income from specified sources has been taxed, that certain states tax residents only while others tax in addition the income derived within the state by non-residents, it is nevertheless clear that such a tax as that of Massachusetts, which yields, from specified incomes only, an amount approximately equal to one third of that collected by the federal government, is a satisfactory fiscal measure; while such a state as Mississippi, which, from a tax upon all individual incomes, gains only about $1\frac{1}{2}$ per cent of the amount collected through the federal channels, is justified in regarding the measure as one which on financial grounds is not worth keeping on the statute books.

An estimate of the success of the taxes on the basis of their relation to the tax system of the respective states, and as gauged by the cost of collection, is not so readily made. No one of these states exactly resembles another with respect to the classes of receipts included in the state fund. Moreover, the intentions of the legislators obviously differ. In Massachusetts, for example, the tax is a substitute for that on intangible personal property; in Delaware, on the other hand, the tax is apparently intended only as a superstructure. Few states emphasize the cost of collection, or have the necessary figures in such form that it can be computed on a basis comparable with that of Wisconsin, for example. In so far as the cost is known, it presents the amount of variation which is to be expected under the diverse systems—from almost 4 per cent in Virginia to slightly more than 1 per cent (on assessments) in Wisconsin.

State income taxes are still so limited in application that the fiscal results cannot yet be used in proof positive of success or failure. The analysis indicates, however, that success, measured in terms of relatively large amounts of state receipts from this source, is *possible*, but is largely conditioned by an accurate adaptation of the rates to the types of incomes represented in the state in question, and by the use of specialized and centralized administrative mechanism.

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